

Dairy Update.

7 July 2021



Easing from a high.

- Dairy prices fell overnight for the sixth consecutive auction.
- The price falls reflect the strong end to the production season and buyer hesitancy at higher costs.
- Prices remain consistent with our 2021/22 farmgate milk price forecast of \$8.00/kg.

Dairy prices fell by 3.6% overnight. That's the sixth consecutive auction where prices have fallen and the largest since March earlier this year.

Prices fell for five of the six products that we monitor. Whole milk powder (WMP) prices fell by 3.0%, representing a fourth consecutive auction where prices have dropped. There were also price declines for cheddar (-9.2%), skim milk powder (-7.0%), butter (-3.2%), and anhydrous milk fat (-0.9%). The standout was lactose, where prices remained unchanged from the previous auction.

GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-3.0%	\$3,864
Skim Milk Powder (SMP)	-7.0%	\$3,126
Anhydrous Milk Fat (AMF)	-0.9%	\$5,632
Butter	-3.2%	\$4,458
GDT Price Index	-3.6%	1,214

The result was slightly weaker than expected. Prior to the auction, the futures market had predicted a circa 2.5% fall in WMP prices. The slightly larger than expected fall means that WMP prices have dropped below US\$3,900/MT, although that is still 20% higher than the same time last year.

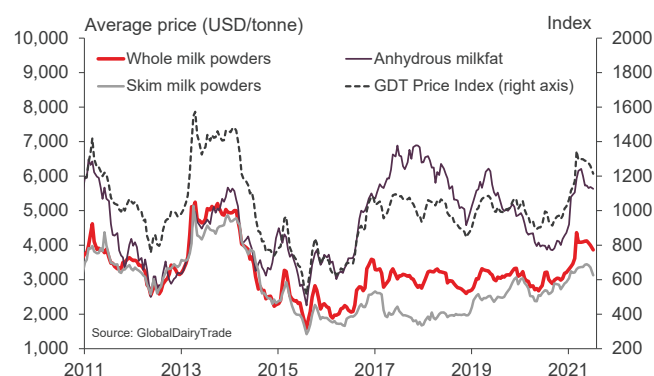
The decline in prices seen over recent auctions reflects several factors.

Firstly, milk production has been strong. Production in May was up a whopping 9.3% on the same month last year. For the entire 2020/21 season, production was 2.7% higher than the previous season. Conditions also look favourable for a good start to the new season.

Secondly, there seems to be an increased reluctance among buyers to pay premium prices. Dairy prices had surged earlier in the year because of stronger demand from China, underpinned in large part by an increased focus on health and nutrition amid the Covid-19 pandemic.

Our forecasts assume that prices would weaken from early highs and on that basis, we continue to expect a healthy farmgate milk price of \$8.00/kg for the 2021/22 season.

Global dairy prices



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Farmgate milk price forecasts

	2020/21		2021/22	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$7.55	\$7.45-\$7.65	\$8.00	\$7.25-\$8.75



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